

Joint Economic Committee WEEKLY ECONOMIC DIGEST

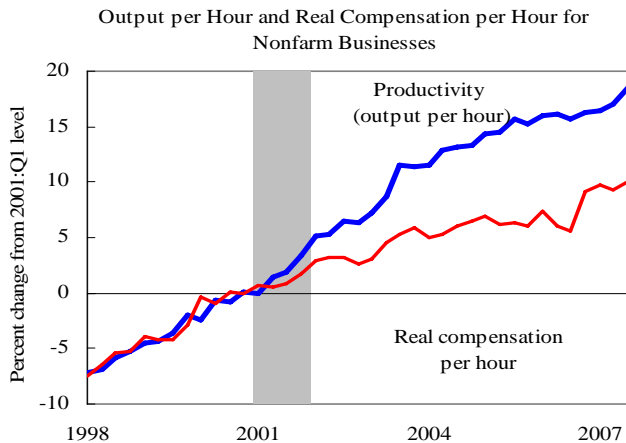
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair

November 13, 2007

ECONOMIC NEWS

Lenders Tighten Terms on Prime Home Loans in Recent Months

Home lending standards tightened on prime mortgages in recent months. Significant numbers of U.S. lenders reported tighter lending standards on all types of home loans between July and October, according to the Federal Reserve's Survey of Senior Loan Officers. About 40 percent of the loan officers surveyed reported tighter standards on prime mortgages, up only about 15 percent between April and July.



Source: JEC calculations based on data from the Bureau of Labor Statistics, U.S. Department of Labor and the National Bureau of Economic Research.

Productivity surged in the third quarter. Output per hour worked in nonfarm businesses increased at a 4.9 percent annual rate in the third quarter, according to preliminary estimates by the Department of Labor. That surge, the largest quarterly gain in four years, reflected a 4.3 percent rise in nonfarm business production coupled with a 0.5 percent drop in hours worked. Real (inflation-adjusted) compensation per hour (wages plus benefits) grew at a 2.7 percent annual rate in the third quarter. Productivity has grown at about twice the pace of compensation over the course of the expansion (see chart).

The trade gap narrowed slightly in September. Exports of goods and services rose by \$1.5 billion while imports rose by \$1.2 billion. As a result, the deficit for international trade in goods and services edged down by \$0.3 billion to \$56.5 billion. The trade deficit remains unsustainably large and exports will have to grow substantially more rapidly than imports over a prolonged period for the trade balance to improve significantly.

IN FOCUS

Double, Double, Oil and Trouble?

There is no question that crude oil prices have been moving up. Last October a barrel of crude cost nearly \$59, and this October the price had risen to nearly \$86. The monthly average price may top \$100 before the end of the year. Although the real (inflation adjusted) price of oil is still below the level it reached in 1980, the nominal and real price of oil have been trending steadily upward for the past decade. (See Snapshot).

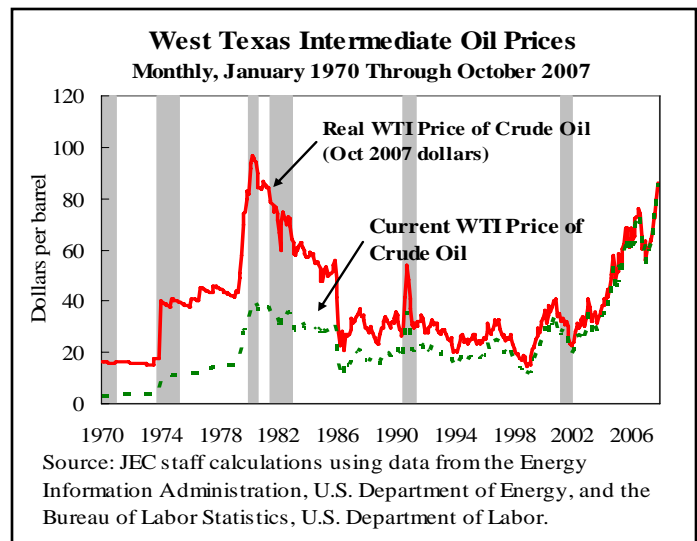
Much of the rise in the price of crude appears to be the result of steady economic growth throughout the world. Economies such as China and India have grown rapidly over the past decade, and their demand for oil has increased. Supply disruption caused by the war in Iraq has also added to the cost of oil.

Crude oil price changes are reflected in the costs of fuels, but the relationship is not always immediate or proportional. The price of refined products also depends on seasonal and regional demand factors. According to the Energy Information Administration (EIA), the average price of regular gasoline was \$2.80 in October, an increase of about 24 percent from the average price of \$2.25 in October, 2006. In contrast, the average spot price of crude oil in October was up by almost 46 percent for the same period.

The heating oil market is unlikely to get the same break

Continued on reverse...

SNAPSHOT



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THE WEEK AHEAD

DAY	RELEASE
Tuesday, Nov 13	Treasury Statement of Receipts and Outlays of the U.S. Government (October 2007)
Wednesday, Nov 14	Advance Monthly Sales for Retail and Food Services (October 2007) Manufacturing and Trade Inventories and Sales (September 2007)
Thursday, Nov 15	Consumer Price Index (October 2007)
Friday, Nov 16	Industrial Production and Capacity Utilization (October 2007)

**Wednesday
Nov 14th:
Retail sales for
October**

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Oct	Sep	Aug	2007 Q3	2007 Q2	2007 Q1	2006	2005
Real GDP Growth (%)	—	—	—	3.9	3.8	0.6	2.9	3.1
Unemployment (% of labor force)	4.7	4.7	4.6	4.7	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	4.9	2.2	0.7	1.0	1.9
Labor Compensation Growth (%)	—	—	—	3.1	3.5	3.1	3.1	3.3
CPI-U Inflation (%)	—	3.7	-1.2	1.9	6.0	3.8	3.2	3.4
Core CPI-U Inflation (%)	—	2.4	2.4	2.5	1.9	2.3	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

that the gasoline market has experienced. Last week, the EIA published an update to its forecast of the cost of winter heating. EIA anticipates that the cost of home heating this winter will be higher than previously expected for those using fuel oil to heat their homes. Last week, residential fuel oil was selling for \$3.11 per gallon, a 74 cent increase from the year before.

Different parts of the country use different fuels to heat their homes, so higher fuel oil costs will be felt unevenly. On average, fewer than eight percent of households use fuel oil as their primary source of heating fuel, but in the Northeast, 32 percent of households use fuel oil. EIA is now forecasting that in the Northeast, home heating costs using fuel oil could average \$1,879 per household, an increase of more than 25 percent from last winter's heating season.

In addition to their impact on consumer pocketbooks, increasing crude oil prices may affect the broader economy. In his testimony before the Joint Economic Committee last week, Federal Reserve Chairman Ben Bernanke cited increasing oil prices as a potential inflation risk. The Fed normally focuses on "core inflation" – that is, the rate of change in prices except those for energy and food. But Chairman Bernanke noted in his testimony that changes in headline inflation caused by oil price increases might alter existing inflation expectations. And the Fed believes that when expectations are not firmly anchored at moderate levels, higher actual inflation can follow.

Moreover, an increasing price of oil has the potential to raise the total cost of the oil we import. Hence crude oil has the potential to add to the negative demand effects caused by credit market disruptions and a declining housing market, events which the Fed believes will slow economic growth through the first half of 2008.